

**THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2018-358-WS

IN RE:

**Amended Verified Application of
Carolina Water Service, Inc. for
Approval of Annual Rate Adjustment
Mechanisms and Petition for an
Accounting Order to Defer Expenses**

**DIRECT TESTIMONY
OF
ROBERT M. HUNTER**

Q. PLEASE STATE YOUR NAME, PRESENT POSITION, AND BUSINESS ADDRESS.

A. My name is Robert M. Hunter. I am the Financial Planning and Analysis Manager for Blue Granite Water Company (“Blue Granite” or “BGWC” or “the Company”), formerly known as Carolina Water Service, Inc. My business address is 130 South Main Street, Suite 800, Greenville, South Carolina 29601.

Q. WHAT ARE YOUR DUTIES IN YOUR CURRENT POSITION?

A. As Financial Planning and Analysis Manager, I am responsible for the daily management of all state level accounting and finance operations. I perform financial and business-related analyses and research in areas such as expense trends, rate of return, depreciation, working capital, and investments at the state level. My duties and responsibilities include:

- Managing the annual financial budgeting process for the Company;
- Analyzing budget and forecast variances and year-over-year variances to provide explanations to management and to assist with financial decision-making;
- Managing and reporting monthly capital spending and forecasting;
- Handling the regulatory process for matters requiring governmental approval, including filing necessary applications;
- Utilizing internal databases and other tools to support qualitative and quantitative analyses and metrics for the Company; and

- Supporting Company accounting principles, practices, and procedures.

Q. WHAT IS YOUR EDUCATION AND PROFESSIONAL BACKGROUND?

A. I hold bachelor's degrees in Corporate Finance and Business Management from the University of Illinois in Champaign-Urbana. I have worked in finance-related roles for over four years at Utilities, Inc., working most of that time as a Senior Financial Analyst, and currently as a Financial Planning and Analysis Manager for Blue Granite. Before joining Utilities, Inc., I worked as an Investments Analyst for Ocean Tomo, a firm providing Opinion, Management, and Advisory services centered on intellectual property assets. While there, I performed market research on a wide array of industries and analyzed company financials to create financial models to determine lost profits and reasonable royalty damages in preparation for patent infringement litigation.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to explain how the Company has calculated rates for its proposed new water and wastewater rate adjustment mechanisms, how such rates would be calculated in the future, and how the Company plans to implement the rate adjustment mechanisms.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. Yes, as described in Mr. Cartin's testimony, we are jointly sponsoring the Amended Verified Application filed in this proceeding, as Exhibit 1.

Q. PLEASE IDENTIFY THE RATES THE COMPANY IS REQUESTING APPROVAL OF IN THIS CASE.

A. The Company is requesting approval of rate adjustments as provided in Exhibits E, F, and G, which are attached to the Amended Verified Application. The rate adjustments impact customer territory groupings as follows: Exhibit E impacts water-distribution-only customers in Water Service Territory 1; Exhibit F impacts water-distribution-only customers in Water Service Territory 2; and Exhibit G impacts all sewer customers in Service Territories 1 and 2. The updated

1 schedule of proposed rates and charges, included with the Amended Verified Application, reflects
2 the rate adjustments for which the Company is requesting approval in this case.

3 **Q. PLEASE WALK US THROUGH HOW THESE PROPOSED RATES WERE**
4 **CALCULATED.**

5 **A.** The rates in the Amended Verified Application were calculated by adding the adjustments
6 calculated and outlined in Exhibits A, B, and C to the Company's current rates as approved in
7 Order No. 2018-802. In Water Service Territory 1, the current, approved Commodity Charge of
8 \$7.55 per 1,000 gallons would increase by \$1.63 per 1,000 gallons for an adjusted rate of \$9.18
9 per 1,000 gallons. In Water Service Territory 2, the current, approved Commodity Charge of
10 \$11.85 per 1,000 gallons would increase by \$1.15 per 1,000 gallons for an adjusted rate of \$13.00
11 per 1,000 gallons. For residential and commercial wastewater in Service Territory 1 and 2, the
12 current, approved Base Facilities Charge ("BFC") of \$65.08 per unit or SFE would increase by
13 \$7.72 per unit or SFE for an adjusted rate of \$72.80 per unit or SFE. For mobile home customers
14 with wastewater in Service Territory 1 and 2, the current, approved BFC of \$47.50 per unit or
15 SFE would increase by \$5.64 per unit or SFE for an adjusted rate of \$53.14 per unit or SFE. For
16 residential wastewater customers under The Village Sewer Collection in Service Territory 1 and
17 2, the current, approved BFC of \$33.86 per unit or SFE would increase by \$4.02 per unit or SFE
18 for an adjusted rate of \$37.88 per unit or SFE.

19 There are two (2) components of the calculation for each of the rate adjustments above.
20 The first is identified in Exhibits A, B, and C as change in purchased water or wastewater expense.
21 The expense amount for which the Company is seeking recovery through the rate adjustment
22 represents the difference between the level of purchased water or wastewater expense approved
23 in the prior rate case, Docket No. 2017-292-WS, compared to current level of expense that is

1 known and measurable at the time of this Amended Verified Application. The current level of
2 expense is calculated by using the consumption data from invoices making up the approved level
3 of expense in the prior rate case and applying the most current rates charged by third party
4 suppliers where the rate has changed since the prior rate case. This method was used to isolate
5 the impact which changes in rates from third party providers have on changes to the expense
6 level, not changes in expense levels due to consumption or customer growth.

7 The second expense for which the Company is seeking recovery is the balance in the
8 Deferred Regulatory Asset. Each month, the Company calculates the portion of the purchased
9 services invoices received which has increased or decreased due to a change from a third-party
10 provider. Any change to expense identified is then deferred into a regulatory asset to be
11 recovered. The Company is seeking to recover the balance of the Deferred Regulatory Asset
12 covering the time period since the most recent rate case, or March 1, 2018 through January 31,
13 2019.

14 **Q. HOW WILL THESE RATE ADJUSTMENTS BE ALLOCATED TO**
15 **CUSTOMER CLASSES?**

16 **A.** Each of the two rate adjustment items, change in expense levels and balance in Deferred
17 Regulatory Asset, results in an expense dollar amount to recover through the mechanism shown
18 on Exhibits E, F, and G. The adjustment to the rate is calculated by spreading these expenses
19 amongst the appropriate customer groups within each Service Territory using actual consumption
20 and number of billing units from calendar year 2018.

21 **Q. WHAT IS THE ESTIMATED IMPACT ON CUSTOMERS OF THESE PROPOSED**
22 **RATES?**

1 A. Looking at the average residential water and wastewater customers, in Water Service
2 Territory 1, the Commodity Charge would increase by \$1.63 per 1,000 gallons, resulting in a \$7.53
3 or 15.27% increase to monthly bills. In Water Service Territory 2, the Commodity Charge would
4 increase by \$1.15 per 1,000 gallons, resulting in a \$4.64 or 6.07% increase to monthly bills. In
5 Wastewater Service in Territories 1 and 2, customers would have the Base Facilities Charge
6 increase by \$7.72, resulting in a \$7.72 or 11.87% increase to monthly bills.

7 **Q. IF THE COMMISSION APPROVES THE PROPOSED RATE ADJUSTMENT**
8 **MECHANISMS, WILL FUTURE RATE ADJUSTMENTS BE CALCULATED AND**
9 **ALLOCATED IN THE SAME MANNER?**

10 A. Yes. The single difference, each year going forward beyond the initial implementation,
11 would be including calculations for over- or under-collection on revenues attributed to the rate
12 adjustments approved in the prior application. Any over- or under-recovery related to the
13 difference between the revenues earned and the actual purchased water and wastewater treatment
14 expenses resulting from changes in third party providers' rates would be reconciled and charged
15 or credited to customers, as appropriate, in the next Annual Purchased Water and Wastewater Rate
16 Adjustment filing. The calculation for any over- or under-recovery would also be applied to the
17 rate adjustment designed to recover the expense in the Deferred Regulatory Asset.

18 **Q. PROCEDURALLY, HOW DOES THE COMPANY PROPOSE TO IMPLEMENT**
19 **THESE RATE ADJUSTMENT MECHANISMS, IF APPROVED BY THE**
20 **COMMISSION?**

21 A. The initial implementation of the adjusted rates would take place upon Commission
22 approval of the Amended Verified Application around June 2019 according to the schedule
23 outlined in the Amended Verified Application. Each year going forward, the mechanism would

1 follow a similar timeline: by March 1st, the Company would file its proposed rate adjustments; by
2 April 15th, the Commission and the Office of Regulatory Staff would complete their respective
3 audit reviews; by April 30th, the Commission would issue an order on the proposed rate
4 adjustments; by May 1st, the Company would provide a 30-day notice of approved rates to its
5 customers; and by June 1st, the Company would implement the approved rates. The Company
6 believes its proposed procedures will provide the Commission and the ORS with adequate time to
7 scrutinize the changes in purchased water and wastewater services rates and the resulting impact
8 on the Company's rates.

9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

10 **A.** Yes, it does.